



“Transform Tektronix—or bury it!”

That's the bottom line from Jerome J. Meyer (left), the CEO of the troubled test and measurement company. Persistent revenue declines have drawn the wolves on Wall Street. A new strategy and new management

By Dwight B. Davis

When Delbert Yocam left his Lake Tahoe vacation home last summer and headed for Reno, NV to meet Jerome J. Meyer, the embattled chairman and chief executive officer of Tektronix Inc., the 48-year-old former Apple Computer Inc. executive struggled with the question of whether to end his two-year, self-imposed retirement.

At Apple, Yocam had spent 10 years in several high-profile positions. He joined the company in 1979 and initially oversaw its manufacturing and materials operations. He then ran the Apple II group—in essence, the entire company—during the period when founders Steve Jobs and Steve Wozniak were devoting their attention to developing the ground-breaking Macintosh PC. Yocam next served as chief operating officer, during which time Apple's sales grew from \$1.9 billion to \$4 billion; he finished up his stint by initiating and running the Apple Pacific organization.

Meyer had come to Nevada hoping to

recruit Yocam as the point man to guide Tektronix, the faltering Beaverton, OR, manufacturer, back to financial health.

Meyer's pitch was good enough to lure Yocam to Beaverton for three more meetings during the month of August. As his exposure to Tektronix increased, Yocam says he “got more and more intrigued by the possibilities at the company.” In mid-September, he signed on as president and chief operating officer at Tektronix, which makes test and measurement devices, television equipment, color printers, and computer terminals.

Yocam arrived at a company decimated by layoffs and buffeted by management turnover. The Tektronix work force had fallen below 11,000 employees and was continuing in a 12-year slide from its employment peak of 24,000 in 1981. Meyer, a former Honeywell Inc. executive, himself was relatively new. He had joined Tektronix in the fall of 1990, nine months after Tektronix president David Friedly had been forced to

resign. Upon his arrival, Meyer embarked on a campaign to force out many home-grown managers in favor of experienced outsiders. “Of the top 100 managers who were here when I came, 37 are out and 16 new ones are in,” he brags. Some of the terminated managers “lacked the necessary sense of urgency,” needed to turn the company around, he says.

Tektronix had tried to increase its revenues by technological diversification that was often misguided. In the decade of the '80s, the company invested hundreds of millions of dollars in new projects, many of which bombed. Among the failures were ill-fated efforts in computer-aided engineering and semiconductor test equipment. A late 1980s foray into the workstation market proved too little, too late; in fiscal 1990 alone, Tek lost an estimated \$20 million on the project before bailing out of the workstation business in late 1990.

Today Meyer himself feels an added sense of urgency because he has so far failed to

staunch the company's hemorrhaging sales, which have been free falling since revenues hit \$1.43 billion in fiscal 1989. Dragged down by declining sales in the mature test and measurement sector, Tek's net sales dropped to \$1.30 billion in fiscal 1992, ended May 30, 1992. Net sales for the first three quarters of fiscal 1993 were \$949.3 million, down slightly from \$986.6 million for the comparable period—which had two extra weeks—the previous year.

Not all of Tek's business lines are bleak. Sales in the color printer business have been growing 20 percent a year and sales in X terminals at about 40 percent a year, helping to push the company's computer graphics-related revenues up about 12 percent in 1993's first three fiscal quarters. But overall, corporate sales have been hurt by flat sales of television systems products and the continuing decline in test and measurement equipment sales, which fell another 11 percent in the first three quarters.

Cost-cutting to the bone

Despite the revenue declines, Meyer has been able to generate somewhat erratic profitability by implementing a series of stringent cost cutting measures, including staff reductions. Net earnings hit an impressive \$48.3 million in fiscal 1991 following a \$92.6 million loss the previous year. But profits fell to a disappointing \$19.7 million in fiscal 1992. This year profits are again showing signs of improvement; for the first three quarters, net earnings reached \$27.0 million, up 82 percent from the two-week-longer 1992 period.

Prudential Securities Inc. of New York predicted Tektronix would finish its fiscal year with a net income of \$37.14 million on revenues of \$1.29 billion. Also, as the end of fiscal 1993 approached, Meyer was on track to meet his goal of cutting general, selling, and administrative expenses by \$30 million for the year.

Reversing the revenue tumble has been difficult because test and measurement sales still constitute about half of Tek's total revenues. The test and measurement market has dropped by about 5 percent for each of the past two to three years, having been hard hit by defense industry cutbacks, by the weakness of large computer-manufacturing customers such as IBM and Digital Equipment Corp., and by product price erosion.



Delbert Yocam, lured to Tektronix by the possibilities he sees in the company, has brought a much needed sense of optimism and openness to a company whose morale has plummeted because of layoffs and shrinking revenues.

Furthermore, says Rick Hill, former vice president of the test and measurement division, "The proliferation of design automation tools has cut the number of mistakes in new systems and reduces the need [for test and measurement tools] to debug them." In late May, Hill became a vice president in Tektronix's corporate development office and Daniel Terpack, formerly the vice president and general manager of the company's new telecommunications division, took over the reins of the test and measurement division.

Enter a Wall Street wolf

The continuing softness in its mainstay test and measurement business remains Tek's biggest business challenge, but the company came under a more immediate threat last year. Investor George Soros, manager of the Quantum Fund Inc., spent about \$80 million over the course of the year to acquire almost 14 percent of the company's

shares. This action prompted insiders to predict that Soros would move to dismember Tektronix, selling off its parts to the highest bidders. Following the December appointment of two Soros-backed candidates to the Tektronix board, Soros agreed to refrain from further increasing his investment in the company until the spring of 1994.

While the truce gives the Tektronix executives some breathing room, Soros's presence on the scene clearly has heightened the sense of urgency Meyer advocates. Some observers contend that the Soros specter has had a positive impact. "Soros, along with the company's poor performance, led to the hiring of Del Yocam," says Laura Conigliaro, a computer analyst at Prudential Securities.

In addition, the threat of auctioning off Tektronix's constituent parts has served as a wake-up call to Tek's workers, says Dan Castles, vice president of the television products division. "Soros has magnified the

threat to employees who might otherwise be saying "this too shall pass," he says.

Both Meyer and Yocam are adamant that Tektronix has a bright future as an integrated company. To those who posit that Tektronix's various business sectors lack synergy, Meyer counters, "What's symbiotic about a light bulb and a train engine within General Electric?" Yocam, meanwhile, argues that Tek's operations do have a common thread. "Our businesses aren't a hodgepodge at all," he says. "They're all strategically part of information processing and communications." Furthermore, he claims, having a diverse product portfolio provides Tektronix with some cushion against economic and marketplace cycles that impact narrow product categories.

Yocam brings optimism

By all accounts, Yocam has brought a much-needed sense of optimism and openness to the hunkered-down Tek environment. Soon after his arrival, he astonished executives and workers alike with a brazen statement that Tektronix could grow to become a \$4 billion company by the turn of the century. Wearing a casual sweater and tie, he introduced himself to the work force by hosting a question and answer session over Tek's internal television network. He has since repeated these sessions after the release of each quarter's fiscal results. "I want the employee base to understand at any point where I am in the decision-making process and to understand how it can influence those decisions," Yocam explains.

Yocam's low-key, motivating approach has won converts within a work force that was chaffing under the harsh cost-cutting imposed by buttoned-up CEO Meyer. A major sore point was the fact that Meyer had moved corporate headquarters from the company's Beaverton campus—home of the test and measurement and television groups—to Wilsonville, OR, where the high-flying printer and terminal businesses operated. At Wilsonville, Meyer oversaw the construction of new corporate offices that workers perceived to be outlandishly lavish in such an austere, cost-cutting environment. Meanwhile rumors circulated that managers were getting even more perks.

"The fear here was incredible," says Castles, a 15-year Tek veteran. "I drive an '86

Chrysler, and there is no way that I can show up at the parking lot in a new car. The perception would be that the corporation bought it for me."

Meyer notes that Tektronix's facilities management committee suggested the move to Wilsonville because it estimated the move could save the company \$6 million. While pleasant, the fabled corporate offices are lavish only in comparison to the industrial-grade facilities that comprise most of the Beaverton campus. Meyer says he has done his best to communicate the rationale for his actions to Tek's employees but admits they probably have not heard the message. "I lack the patience to deal with these issues," he acknowledges. "I just want to say [to employees] 'Why are you worrying about this when there are customers out there buying products from the wrong vendors?'"

divisions (IBDs), each with its own profit and loss responsibilities. The newly focused IBDs include test and measurement products, television products, television production/distribution products (Grass Valley Group Inc.), graphic printing and imaging, network display and display products, and telecommunications. Three "strategic" services—technology, materials operations, and international—support the IBDs, along with other corporate-wide service groups such as information systems, operations control, and legal.

Although the technology within the well-regarded Tek Labs organization of Tektronix was always superior, its relevance to the company's business goals was often tenuous. Now Tek Labs comprises the technology strategic service, and each lab manager must "adopt" an IBD, according to Meyer.

"The manager goes to all the IBD meetings and brings back information about the division's needs, while also informing the IBD about activities in the Labs."

Like the rest of the company, Tek Labs has suffered budget cuts and downsizing, but the organization has found a champion in Yocam. "I separated advanced technology from products at Apple, and Tek Labs was one of the reasons I came to Tektronix," he says. In Yocam's vision, two-thirds of the lab's research and development should go towards "evolutionary" efforts, such as adding value to existing products, while one-third of R&D should be involved with "new ideas, new thinking."

To run the newly established materials operations service, Yocam

recruited another multi-talented Apple alumnus, Debi Coleman, to serve as the organization's vice president. At Apple, Coleman served in a number of high-profile positions, including stints as vice president of finance and chief financial officer, vice president of operations, and vice president for information and technology. In her new job, Coleman has a sweeping charter to cut costs and improve efficiency throughout Tektronix.

One of her plans is to reduce the number of Tek's suppliers by about 25 percent per year; she also intends to increase the percentage of suppliers interacting with Tektronix via electronic data interchange (EDI)

Tektronix at a glance

Fiscal year ended May 30,	1992	1991
Sales (\$ thousands)	\$1,297,243	\$1,339,935
Net income (\$ thousands)	\$19,745	\$48,345
Net income/sales	1.52%	3.6%
Cost of sales/sales	50.36%	49.20%
SGA/sales	31.44%	30.49%
Number of employees	11,334	11,947
Sales per employee	\$114,456	\$112,157
Nine months*	1993	1992
Sales (\$ thousands)	\$949,300	\$986,580
Net income (\$ thousands)	\$27,049	\$14,799

*Three quarters (41 weeks) ended Mar. 7, 1992, compared with 39 weeks ended Feb. 27, 1993

Source: Company reports

With Yocam on board, Meyer now concentrates on handling external relations with the board, stockholders, the media, and customers. He also continues to shape his strategic plan to reverse Tektronix's fortunes. Yocam is contributing to that strategy, but his main focus is on facilitating the company's day-to-day operations. To that end, he has instituted several organizational and operational changes.

Fragmenting T&M

The most notable change has been the separation of Tek's test and measurement, television systems, and computer graphics operations into six independent business

from the current 35 percent to 90 to 95 percent. "Supply chain integration is replacing manufacturing as a key differentiator," Coleman says.

Also under Coleman's purview are efforts to improve the design of products with an eye toward manufacturability and serviceability, reduce the sheer volume of products and options Tektronix supports, and consolidate the company's once-fragmented procurement processes. "Before, vendors could divide Tek's divisions and conquer them," she says. "If one division was being overcharged, it had no way of knowing." Through her grab bag of cost savings and cost reducing measures, Coleman estimates she can cut at least \$50 million off the balance sheet.

More cuts to come?

Probably the most difficult challenges Coleman faces are questions about the future of various company operations that might no longer fit with a leaner, more focused Tektronix. Some decisions are easy, such as the move to divest a truck delivery service that delivered mail, paychecks and parts among the different corporate sites. "We didn't need to own a truck fleet, hire drivers, and do truck maintenance," she says.

More troublesome are several internal facilities that produce components—circuit boards, microelectronics, ceramics, and CRTs—used by the IBDs and outside buyers. For at least some of these operations, the future appears dim. "We have said we're too vertically integrated and that we will do something about it," says Meyer. Still, Coleman notes, outsourcing such operations isn't a panacea. "Through outsourcing we could probably realize a net annual savings of from zero to 5 percent," she says. "By outsourcing you do avoid the head count and avoid increasing the investment in your asset base, but you must then manage the outside relationships."

New businesses to come

Yocam, meanwhile, is bullish on the newly established IBDs and suggests more business divisions may follow. One likely addition is an IBD focused on software, he says, though he declines to speculate on the exact nature of such a division. Yocam, who sits on the boards of software suppliers Oracle Systems Corp. and Adobe Systems Inc., was encouraged to find a 50-50 ratio of

Color printers set an example at Tek

In many ways, Tektronix's graphics printing and imaging division (GPID) embodies the business characteristics the company hopes to replicate corporate wide. The printer group is narrowly focused on the color printer business and continues to maintain a growth rate in excess of 20 percent per year.

Unlike Tek's test and measurement and television divisions, GPID has the luxury of fielding a product line that consists of only three printer families. Two of these families incorporate color printing engines—using thermal wax and dye sublimation technologies—acquired from outside suppliers. The third, based on phase-change technology, was largely developed in house.

"We can only afford to develop one technology ourselves and do it right," explains Roy Barker, GPID's vice president, who says phase change technology currently represents about 40 percent of the division's business and "has long-term prospects." Meanwhile, buying some printing technology from outside vendors "keeps us honest," he says.

Options on a base engine

Each of the printer families offers various options packaged on top of a common print engine. Dealing with just three basic print engines eases product development and maintenance. The options are largely software-based features packaged in the

printer controllers, making it easy and relatively inexpensive to offer different configurations and make upgrades. "Controllers are our strong suit, where we do our true added value," Barker says. "We have very good third-party relationships with companies such as Adobe that allow us to do some things in the controllers that others can't."

From its inception, the printer division targeted customer satisfaction as its main objective, Barker says. "We keep in close contact with our customers to measure their satisfaction. The true measure of our products is in how much they're used."

The division's Phaser III PXi phase change printers and its photo-quality Phaser II SD dye sublimation model each retail for \$9,995. But the Phaser 200 line of thermal wax printers introduced late last year come in two models priced at \$5,995 and \$3,695. At these prices, the printers are approaching a mass-market status that Tektronix president and COO Del Yocam hopes to emulate in other product lines across the company.

But falling prices and the move to mass distributors such as Kmart can have a downside, admits Barker. "We hold a warm spot in the hearts of our distribution channel because people can make money with our differentiated products," he says. "As prices drop and we try to enter new mass-market channels, we must try to ensure that remains the case." ■

software engineers to hardware engineers at Tektronix, about the same ratio as at Apple. "The '90s will be the software decade," he says, "and we need to assess our existing core competencies in that area."

Also high on Yocam's list of prospects is the new telecommunications IBD, which was created from the test and measurement group. The new group's initial products, unveiled in April, hold true to the IBD's roots and consist of various testing and analysis tools for broadband and cable networks. "But we're looking beyond just the test area," explained Dan Terpack, before he left his short-lived position as vice president of the telecommunications IBD and moved to take over the test and measurement helm. Under its charter, the telecom group isn't

prohibited from entering any telephone or data communications market.

The breakout of telecommunications from the test and measurement operation represents a model that others are likely to replicate. "Part of our strategy is to build a strong test and measurement product base and use it to attack various vertical markets," says Meyer. The television products division preceded the telecommunications division along this path, and future test and measurement-based IBDs could target markets such as automotive, manufacturing, medical, and biotechnology.

Despite the fact that Tektronix intends to continue cannibalizing the test and measurement division, former T&M vice president Hill claims the loss of high-growth ver-

tical products doesn't trouble the group. "We're all Tek," says the 10-year company veteran, "and that's more true today than ever before. If some of [the test and measurement] product areas are split into separate businesses, I'll view that as a positive sign."

Another positive sign is the company's domination of both the analog and the digital oscilloscope markets, Hill claims. He says that morale is "really good," despite the fact that the test and measurement group shrunk from 8,200 to 5,000 people during the past three years. "People here have gone through some tough times, but we are now introducing a large number of successful products," Hill says.

Counting on new products

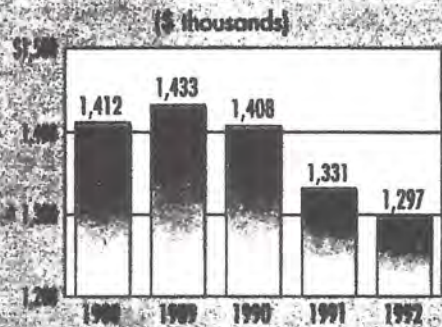
The push to bring new products rapidly to market infuses all the Tektronix IBDs. Meyer and Yocam have set the goal of obtaining one-third of each year's sales from products that were introduced in the preceding 24 months. In the company's pace-setting printer division (see "Color printers set an example at Tek"), the percentage of revenue from products two years old or younger will approach 90 percent in fiscal 1993.

Each IBD has its own challenging growth plan—a "scary double-digit figure" for the television products division, says Castles—and is scrambling to develop high-growth products that can achieve those goals. Castles' group, for instance, is moving to buttress its presence in broadcast television with new products aimed at the burgeoning cable TV field. The test and measurement-oriented group is also adding "operational" products—those that deal with live television signals—and is looking to exploit the trend toward digital TV.

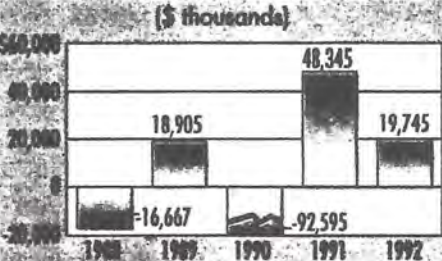
The Grass Valley Group, a wholly owned subsidiary based in Grass Valley, CA, constitutes the television production/distribution products IBD and will continue to sell products to "creative" people, rather than to the "technical" people the television products IBD services.

Castles notes that Sony Corp., his division's biggest customer, is the Grass Valley Group's main competitor. Looking to the future, the California subsidiary is likely

Revenues continue to decline...



...while profits are erratic



Source: Company reports

to go "down market" in an attempt to apply its video expertise to the nascent but promising multimedia marketplace.

The network display and display products division already has a hot product line: X terminals. "We're growing at the rate of the X terminal market, or about 40 to 50 percent in terms of revenues and even higher in terms of units," says William R. Spivey, vice president of the division. But Tektronix's X terminal sales, which constitute more than 90 percent of the IBD's revenues, still suffer from the drag of the division's aging proprietary computer terminal business. Spivey says the company may have to make a cost/benefit decision at some point to drop sales and support for the old terminals, but intends to maintain the line for now.

Seeking customers and partners

Two common themes pop up consistently among all the IBD managers and Tektronix's executives. One is an over-riding focus on customers and their needs. "It's the customer who calls the shots," says Yocam, who has already travelled as far as the China Central Television's offices in Beijing in his efforts to sound out the major customers of each IBD. Yocam wants Tektronix to walk "the fine line between answering customer

needs and finding the technology that pushes them further."

The second theme at long-insular Tektronix is a push to form partnerships via joint ventures, acquisitions, or mergers. CEO Meyer says Tektronix has a development project in the works with IBM, and every division VP is searching for suitable partners. "In the TV community, we're the big fish in a small test and measurement pond," says Castles. "It's a big deal to have direct sales in this area, so we're looking for companies that make complimentary products that could benefit from our international distribution channels as well as from the Tektronix name, service, and support."

One of the Tek's first partnering deals is with Advantest Corp. of Tokyo, Japan. Under the arrangement, which went into effect on June 1, 1993, Tektronix gained exclusive rights to distribute Advantest's line of test and measurement equipment in North America. The Advantest products consist of devices that measure radio frequency and microwave signals; these products nicely compliment Tek's line of oscilloscopes, which measure signals against a time axis rather than a frequency axis, explains Hill.

The potential market for the Advantest line is at least as great as that for Tek's existing oscilloscope products, Hill says. Both the test and measurement and the telecommunications divisions within Tektronix will market the Advantest products that relate to their particular domains; the two IBDs will each benefit from the transfer prices Tektronix will charge for its services. Those prices and the other terms of the contract have not been released.

Even as Tektronix's managers move to revitalize the company, they acknowledge that the hard times may not yet be behind them. With the company's current fixation on bottom-line results, further layoffs will occur if revenue growth fails to materialize. "We will continue to size our work force in response to the incoming sales and order rates," says Hill. "But at least we're now cutting with a scalpel instead of with a meat ax."

And despite claims to the contrary, Tek's executives are proceeding with an eye toward the timetable that investor Soros set. "The stakes are clear," says Meyer. "There is value in this company, and we have to unlock it. We have to transform Tektronix—or bury it." **EB**